

Stenehjem,Carlene R - DKC

From: rffinnen@snopud.com
Sent: Wednesday, January 04, 2006 4:28 PM
To: BPA Public Involvement
Subject: Comment on BPA's Service to DSI Customers
Attachments: 20060104 DSI Benefits.pdf

Comment on **BPA's Service to DSI Customers**

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This comment includes an attachment!



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Submitted online at <http://www.bpa.gov/comment>

January 4, 2006

Paul E. Norman
Senior Vice President
Bonneville Power Administration
BPA Communications, DM-7
PO Box 14428
Portland, OR 97293-4428

Re: Proposed Draft Prototype Contract for DSI Benefits

Dear Paul:

We are responding to the request for comments on the Bonneville Power Administration's proposed contract prototype with certain Direct Service Industry companies starting in FY '07. We also refer you to the comments we made on May 11, 2005, a copy of which is attached. In general, we support the comments filed by the Public Power Council ("PPC"), particularly the recommendation that the Administrator amend his June 30th decision and not offer DSIs \$60 million of benefits. We offer the following additional comments:

1. BPA said it would revisit its decision to offer service to the DSIs once the financial impacts of Judge Redden's rulings were better known (November 28, 2005 letter). Given the significance of his rulings to date and his further rulings to come on the BiOp in October (currently estimated to have a potential financial impact of up to \$600 million), BPA should postpone any decision on DSI benefits until the full impact of such costs are known.
2. Because it is in the discretion of the Administrator to provide DSI service at all, Snohomish County PUD believes that any contract to provide service to DSIs be subject to the following contractual conditions:
 - Unless Bonneville's FY '07-10 wholesale power rate proceeding results in a PF rate no greater than \$27 a megawatt hour, there should be no BPA/DSI contract. BPA should not make a contract for a discretionary expense item until BPA can assure its preference customers that it will achieve the rate goal of \$27 per MWh (including a premium for risk). Before the last rate case, BPA rates were \$23 MWh. We believe that BPA should take all steps to move rates toward an ultimate goal of restoring rates to the level they were in 2000. If BPA provides financial subsidies to the DSIs in the proposed amount of \$60 million per year, that increases costs to Snohomish PUD customers of \$6 million a year (which would be \$30 million over the five-year initial contract period). If, as BPA has indicated, the DSI subsidies will be extended for an additional twenty-year period following the initial five-year contract, the total cost to Snohomish customers would be over \$150 million.
 - BPA appears to justify the proposed subsidies to DSIs on the basis of avoiding job losses. But the subsidies on a per job basis appear to exceed \$100,000 per year per

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DSI job, which is more than the salary for each such job. Such subsidies cannot be justified. The money for such subsidies will come from other customers and industries that are also at risk of job losses. If BPA justifies subsidies for jobs in one industry, it is appropriate for BPA to ensure that an equal or greater number of other jobs are not lost as a result. BPA has yet to do the analysis that would demonstrate that the Northwest economy will not lose more jobs than it would gain by this DSI subsidy. In this regard, we agree with the prior comments of our largest customer, Kimberly-Clark, who opposes the DSI subsidies as unfair and damaging.

- Before BPA makes any contract with the DSIs for the short or long term, BPA must have long-term power allocation contracts signed and ratified by Congress.
 - All communications regarding negotiations between BPA and any of the DSIs should be subject to full disclosure, including all estimates of costs, risks and consequences of various proposals.
3. BPA's proposed contract form may not be legal under international WTO trade rules which prohibit government subsidies to enable companies to compete in world commodity markets. BPA should provide a legal opinion that this proposed contract will comply with World Trade Organization and other international treaty provisions.
 4. Finally, but most important, BPA has no statutory power to provide financial subsidies of the type proposed in the DSI prototype contracts. The BPA contract form appears to be contrary to several provisions of existing law including the 1980 Regional Power Act 7(b)(2) rate test. BPA should disclose any analysis it has performed regarding the legality of the contract it proposes.

Very truly yours,



Steve Marshall
Assistant General Manager, Power and Transmission Services
Snohomish County PUD #1



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March 11, 2005

DSI-075
MAR 14 2005

Via email, facsimile (503-230-3285), and U.S. Mail

Paul E. Norman
Senior Vice President
Bonneville Power Administration
PO Box 14428
Portland, OR 97293-4428

Re: PT-5; Comments on DSI service

Dear Paul:

In general we agree with most of the comments of the Public Power Council and Western Public Agencies Group on the Bonneville Power Administration's proposed service to DSIs starting in FY '07. We have the following additional comments:

1. Because it is in the discretion of the Administrator to provide DSI service at all, Snohomish County PUD believes that any commitment to provide service to DSIs should be not be final at this time and should be subject to the following four conditions:
 - Unless Bonneville's FY '07-10 wholesale power rate proceeding results in a PF rate no greater than \$27 a megawatt hour, there should be no DSI service for two reasons: First, the DSIs themselves have said they cannot operate profitably unless their BPA rate is no greater than \$27. Second, BPA should not make any firm commitments on expense items until it is assured that it will achieve the rate goal of \$27, which will not be known until the completion of the rate case.
 - BPA must assure preference customers that the 500MW of DSI load will not create a tiered rate structure for either of the next two rate periods.
 - BPA must have long-term allocated power contracts signed and in place and ratified by Congress. The Northwest Power and Conservation Council has recommended that BPA enter into long-term (20 year) allocated power contracts as soon as possible to avoid outside interference and to help secure the Federal Columbia River Power System. We believe this can be done by October 1, 2005, with the help of the DSIs.

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- BPA must require a contractual commitment from all of the DSIs that they will not to seek more than the lesser of 500MW or \$40 million and agree to the other conditions in the BPA proposal *before* BPA issues a Record of Decision. The DSI contractual agreement would extend to administration or legislative efforts. Breach of the contract would result in forfeiture of all discretionary sales.
- 2. Although BPA's proposed \$40 million financial cap is appealing, it may not be workable or legal under existing law, including international trade rules. As a result, BPA should consider a one-time augmentation of the Federal Base System by buying back a portion of the Canadian Entitlement power and thereby avoid the expense of adding new transmission lines and facilities in Western Washington needed for South to North deliveries. Alternatively, BPA could enter into contracts for additional power generation at sites that would help minimize transmission expenses.
- 3. All communications and negotiations between BPA and any of the DSIs should be subject to full disclosure, including all estimates of costs, risks and consequences of various proposals. If it appears that the limits in the BPA current proposal are not likely to be acceptable to the DSIs in the aggregate, BPA should notify the region and postpone any further action.

Very truly yours,



Steve Marshall
Assistant General Manager
Power & Transmission Services

This letter was sent via email @ www.bpa.gov/comment and comment@bpa.gov; fax 503-230-3285; and U.S. mail to addressee